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National Association of Purchasing Management

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Inventory growth sets four-year record

Exports continue to fuel growth

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, Inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

July Report

The economy continued to expand in July at a pace just barely below that of June, say the nation's purchasing managers in their latest **Report on Business.** The production growth rate was slightly below June's when taking normal seasonal variations into consideration. New orders expanded at the second-greatest seasonally adjusted rate since last October; only June was brisker. Vendor deliveries remained slow, but the rate of slowing abated somewhat. Employment increased for the second consecutive month, aided by temporary summer employment. Inventories increased at the greatest rate of growth since July 1984 after considering normal seasonal variations. Prices increased for the 22nd consecutive month, but at a somewhat slower pace. New export orders continued to grow at a torrid pace in July. Of the 75% of members who export, 39% reported higher export orders, up from 38% in June, bringing the average for 1988 to 37.8%. Only 3% of exporters said their exports were worse, the same as in June.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. Said Bretz: "The economy entered the third quarter at the same strong pace as it left the second. The vigorous increase in new orders, undoubtedly fueled by the surge in export orders, is impressive and signals continued robust economic growth for the balance of the third quarter."

The **Purchasing Managers' Index** registered a strong 59%, fractionally lower than 59.3% in June; July marks the second anniversary this leading indicator has exceeded 50%. Bretz said, "The 59% reached in July raises the average for the first seven months of 1988 to 56.3%. Past experience indicates that, if this average were to continue for the remainder of 1988, it would be consistent with real GNP growth of about 3.7%." A reading above 50 indicates that the economy is generally expanding; below 50, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

Employment increased in July for the second consecutive month after declining in the three previous months. The net difference (+7) between the number of members reporting higher employment (19%) and lower (12%) is the greatest since December. Some of the increase might be explained by the large number of members hiring temporary employees during summer vacation periods.

Employment	% Higher	% Same	% Lower	Net
July	19	69	12	+7
June	20	64	16	+4
May	14	75	11	+3

Buying Policy

Lead times of 60 days or less for production materials were reported by 79% of purchasers, up from 77% in June; this is the most to so report since September 1987 (80%), indicating shorter lead times. Lead times for capital expenditures were longer, as 56% of members reported lead times of six months and longer, up considerably from 49% in June, but only slightly ahead of May (55%). Lead times for maintenance, repair and operating (MRO) supplies were virtually unchanged from June.

Percent Reporting

Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
July	16	40	23	15	6
June	14	41	22	18	5
May	15	41	22	14	8
MRO Supplies					
July	35	48	15	2	0
June	36	46	15	2	1
May	38	49	10	3	0
Capital Expenditures					
July	8	5	13	18	56
June	10	7	10	24	49
May	9	6	11	19	55

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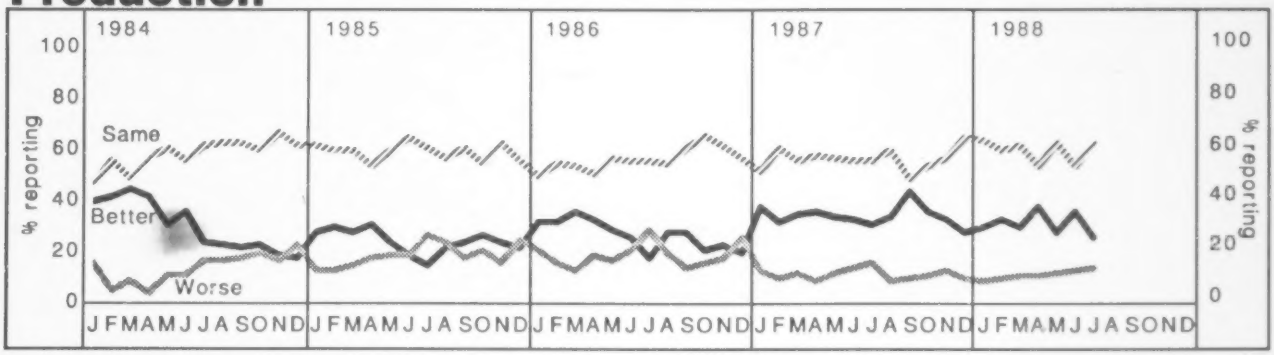
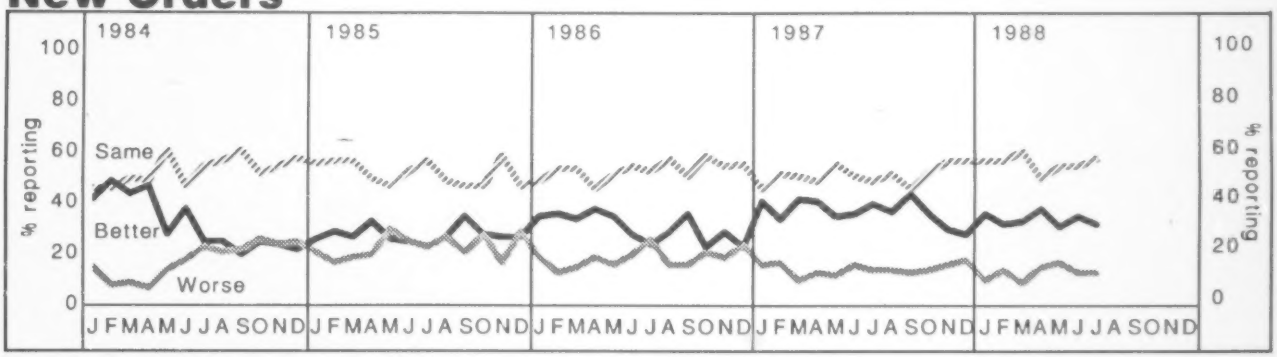
Production



July also marked the 19th consecutive month of growth in production. Although the number of members reporting better production (25%) was down from June (35%), when taking normal seasonal variations into consideration, the rate of growth in July was the second-highest since October 1987; only June was higher.

Production	% Better	% Same	% Worse	Net
July	25	62	13	+12
June	35	53	12	+23
May	27	62	11	+16

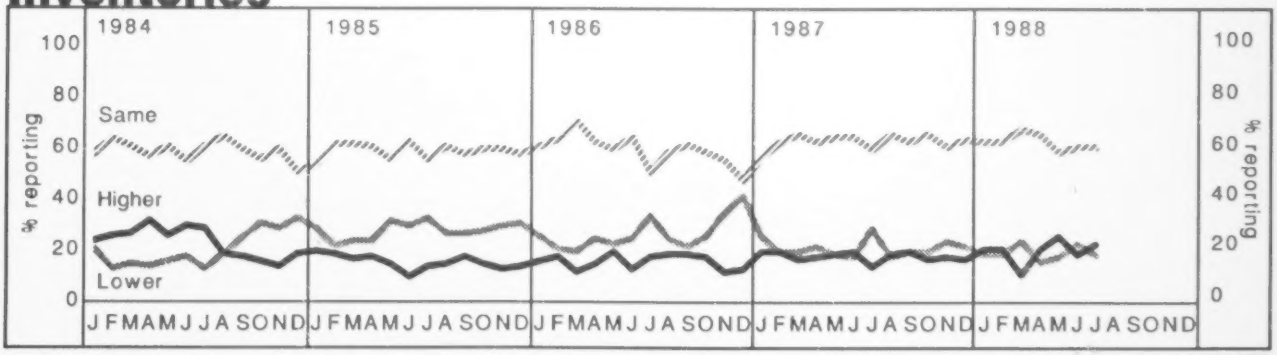
New Orders



New orders expanded in July for the 19th consecutive month. The net difference (+19) between the number of members reporting better new orders (31%) and worse (12%) is only slightly less than in June (+22). Considering normal seasonal variations, this is the second-greatest rate of growth since last October and suggests a continued growth in production.

New Orders	% Better	% Same	% Worse	Net
July	31	57	12	+19
June	34	54	12	+22
May	30	54	16	+14

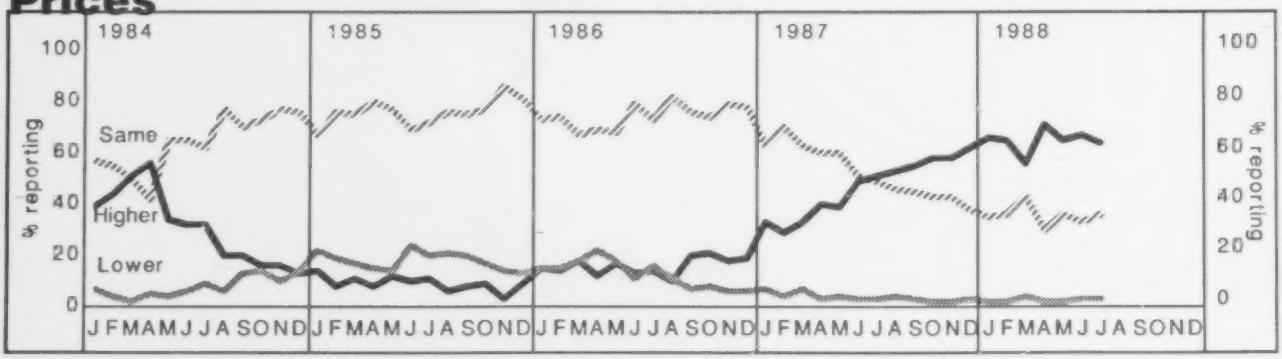
Inventories



Inventories grew at a fast pace in July. The net difference (+4) between the number of members reporting higher inventories (22%) and lower (18%) was considerably greater than in June (−4). Taking normal seasonal variations into consideration, the rate of increase was the greatest since July 1984. Some of the increase in inventory may be attributed to receiving products earlier than required from suppliers who closed their plants for vacation and maintenance and as a hedge against the significant number of price increases that went into effect July 1.

Inventories	% Higher	% Same	% Lower	Net
July	22	60	18	+4
June	18	60	22	−4
May	25	58	17	+8

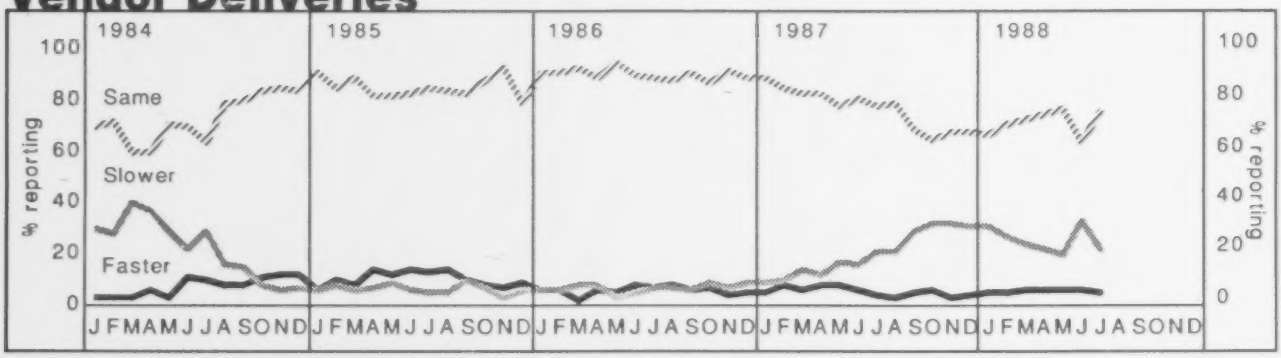
Prices



Prices increased for the 22nd consecutive month. The net difference (+61) between those reporting higher prices (63%) and lower prices (2%) is only slightly smaller than in June (+64) and remains one of the biggest concerns of purchasers. The prolonged drought is adding to these concerns.

Prices	% Higher	% Same	% Lower	Net
July	63	35	2	+61
June	66	32	2	+64
May	64	35	1	+63

Vendor Deliveries



Purchasers reported slower deliveries for the 22nd consecutive month. However, the slowing in vendor deliveries in July, a sign of growth in the economy, is significantly less than in June. Only 21% of members reported their deliveries were slower in July, down considerably from June (32%). Many members reported their plants were closed for normal maintenance and vacations, which may have contributed to the mid-summer easing in slower deliveries.

Vendor Deliveries	% Faster	% Same	% Slower	Net
July	4	75	21	−17
June	5	63	32	−27
May	5	76	19	−14

Specific Commodity Changes

UP IN PRICE: Corrugated shipping containers (27th time in 28 months), printing paper (16th time in 19 months), paper products and packaging (sixth consecutive month), solid bleached sulfite (SBS — bleached and coated paperboard), caustic soda (20th consecutive month; used heavily in paper-making, petroleum refining and soap-making), aluminum (18th consecutive month), copper (16th time in 17 months; some reports of price decreases), nickel (fifth consecutive month; some reports of price decreases; used heavily in making stainless steel plating metals and batteries), steel (22nd time in 23 months), stainless steel (seventh consecutive month), hot- and cold-rolled steel sheets (second time in four months), steel products (ninth consecutive month), magnesium (used heavily in making light alloy steel for precision instruments), zinc (sixth time in seven months; used heavily in metal alloys and as a protective coating for metals), rubber, polyethylene (13th time in 14 months; used heavily in making packaging materials and paper coatings), polypropylene (used in making fabics, carpets and yarns), plastic resins (13th time in 14 months), styrene (second consecutive month; used chiefly in making synthetic rubber, plastic resins and plastic), propylene glycol (used heavily in making plastic resins, as a nontoxic antifreeze in foods, a solvent for pharmeceuticals and a substitute for ethylene glycol), plastic products (14th time in 15 months), polyvinyl chloride (PVC — used heavily as a substitute for rubber in tubing, belting and pipe), ethylene glycol (used heavily in making antifreeze, brake fluid, plastic paint and ink), ethylene oxide (fourth consecutive month; used in chemical synthesis, sterilization and fumigation), ethylene (11th time in 12 months; used heavily in making ethylene oxide and plastic resins), ethylene derivatives (fifth time in five months), methanol (eighth consecutive month; used heavily as a solvent and in synthesizing other chemicals), phenol (used heavily in making phenolic resins), titanium dioxide (fourth consecutive month; a lead-free pigment used heavily as a whitener in coatings, paints, paper and other industrial applications), antifreeze (second consecutive month), miscellaneous chemicals (10th consecutive month), sweeteners (used heavily in beverages and processed foods), electric motors, bearings, and natural gas.

DOWN IN PRICE: Fuel oil.

IN SHORT SUPPLY: Aluminum (10th consecutive month), nickel (fifth consecutive month), hot- and cold-rolled steel sheets (15th consecutive month), stainless steel (seventh consecutive month), magnesium, printing paper (fifth consecutive month), bleached paperboard, nylon fabric, caustic soda and soda ash (14th consecutive month), polyethylene (third consecutive month), plastic resins (third consecutive month), acrylic acid (used in manufacturing plastics), ethylene oxide (fifth consecutive month), ethylene glycol (second consecutive month), ethylene (fourth consecutive month), ethylene derivatives (second consecutive month; a fire at a major ethylene and ethylene-derivative plant is causing shortages and allocations), phenol (fourth consecutive month), methanol (eighth consecutive month; caused primarily by a plant fire), methyl ethyl ketone (fourth consecutive month; used heavily as a chemical solvent in surface coatings and in making resins), methylene diisocyanate (second consecutive month; MDI — used in making rigid urethane foam plastics), and titanium dioxide (12th consecutive month).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

Note: The next issue of *Report on Business* will be available September 6.

Commodity Reports

Paper Products

Prepared by the N.A.P.M. Paper Committee. Chair: Glenn E. Farber, C.P.M., Vanier Graphics Corporation, Santee, California.

A *Pulp and Paper Week* survey of 29 companies shows profits up 61.5 percent and sales increases of 19.3 percent compared to the first quarter of 1987.

This surge of profits has been reinvested. An additional 6.1 million tons per year of new capacity is scheduled between 1988 and 1990. This is an average growth rate of 2.5 percent and puts the total added tonnage between 1985 and 1990 at 12.7 million tons.

Newsprint: Approximately 2 million metric tons of capacity, a 12 percent increase, is now being built or planned in North America. Growth of demand is expected to be only about 2 percent in 1988 and 1.7 percent in 1989. Operating rates will probably stay in the high 90s for 1988 but will drop to the mid-90s in 1989. Expectations of a price increase this fall are diminishing in favor of a later increase, perhaps in January 1989. Shipments are steady and mill inventories are increasing.

Uncoated Groundwood: This commodity remains in strong demand and markets are still fairly tight. Growth stood at 2.2 percent through April compared to the same period in 1987. This grade is available but is largely on allocation; some mills are even asking for orders. Imports continue to supply a major portion of this commodity. Only minor expansions are scheduled in the next 12 months.

Coated Groundwood: This grade is still very strong and has grown, along with coated free, 13.9 percent since last year. The rapidly growing magazine and commerical printing markets continue to support this commodity's growth. Imports also continue to grow at healthy rates. Prices were expected to increase July 1 by approximately 5 to 6 percent. Additional capacity of approximately 200,000 tons is slated to come on soon.

Uncoated Free Sheet: Uncoated free sheets continue to be in strong demand. Additional capacity will start up this fall; early 1989 should see a temporary balancing effort between supply and demand until the added capacity is absorbed. The price increase of April 1 appears to have held and there are indications of additional increases coming up shortly. Price hikes in the cut-size reprographics offset grades were effective July 1. The next price increases will probably be the last for perhaps a year while new capacity is absorbed. A new 200,000 TPY mill has been announced for late 1990. All grades continue on allocation with lead times steady. Almost all believe that allocations will continue through 1988 but then should loosen as new capacity becomes operational. Spot buyers may have trouble getting what they want when they want it.

Coated Free Sheet: Operating rates for this commodity remain between 92 and 95 percent. Growth in 1988 is expected to be around 6.5 percent. Continued strong demand dramatically increased exports by 22 percent in 1987. Capacity increases are expected to be about 4.8 percent this year. Two new machines are starting up later this year. This grade is on allocation, with lead times of six to eight weeks expected to continue through the balance of this year. More buyers are increasing inventories. Another price increase is expected this year.

Bleached Bristols: This commodity has tightened considerably since last report. Buyers are indicating allocations and cycles are filling several months in advance, requiring earlier placement of orders. Production is up 10.5 percent from last year. This may continue for some time; one respondent expects a very tight situation the second quarter of 1989. Inventories appear to be increasing. Lead times are stable. Prices are increasing with another jump expected later this year.

Paperboard/Linerboard: Linerboard and resulting corrugated boxes logged record shipments for the 21st consecutive month. Consumption is up 5.6 percent over the same period in 1987. Once again, the export market is keeping demand up and helping to get price increases. Demand for SBS grades continues strong both domestically and for export. Linerboard capacity is expected to increase 2.7 percent in 1988, 4.5 percent in 1989 and 3.0 percent in 1990. Expect another price increase in the fall for SBS, SUS and perhaps linerboard, although this likely will hold until early 1989.

Pulp: The first pulp increase for the third quarter was recently announced at $35 metric ton. Pulp inventories continue to be quite low thus helping the increases. We are finally seeing some additional capacity announcements. Northern bleached softwood kraft pulp is extremely tight. Hardwood pulp is a little more available. Operating rates are reported at 102 percent of capacity.

Packaging

Prepared by the N.A.P.M. Packaging Committee. Chair: Carl D. Dirkse, C.P.M., S.C. Johnson & Son, Inc., Racine, Wisconsin.

The boom in the packaging business continues. Production plants are running at capacity, prices are rising, and lead times are lengthening. Some materials are on allocation. Packaging buyers are trying to reduce prices by material substitutions and redesigning.

The boom is fueled by domestic demand due to the strong economy and by strong export demand resulting from the weak dollar and a strong worldwide economy.

Amidst all this good news for packaging looms the increasing concern about what new laws will be passed on the disposal of packaging waste. Suffolk County, Long Island has signed into law a bill prohibiting the use of plastic grocery sacks and various plastic food containers and utensils. News comes in almost daily about other legislation restricting the use and disposal of plastic products.

Metal Cans: After years of surplus capacity and falling prices, the metal can market is now strengthening. The majority of members are reporting price increases, due primarily to tinplate increases. American National Can Co. has announced the close-down of its Philadelphia plant.

Fibre Cans: Supply continues to be adequate, although one member reports some supply problems. Prices are rising due to increases in kraft board.

Glass: The merger of Owens Illinois and Brockway has finally been consummated. It remains to be seen what effect this will have on glass buyers. Anchor Glass has announced the closing of two more facilities purchased from Diamond-Bathurst: a glass container plant in Chattanooga, Tennessee and a mold manufacturing plant in Reno, Pennsylvania. Glass demand remains strong and prices are increasing.

Molded Plastics: Every responding member but one reports price increases. This is due to the continuing price increases for all resins. Supply is extremely tight and many customers are on allocation. Supply has been adversely affected by the fire at the huge Shell Norco, Louisiana chemical complex. The biggest factor in the shortage is the large volume of resin being exported. Several new resin facilities have been announced, but as long as the exports continue, it will be some time before supply catches up with demand.

Films: Both packaging films and stretch films are in tight supply. Continuing resin price increases are being passed on to film buyers.

Laminated Stock: Laminated stock is being hit on every side by raw material price increases: plastic resin, foil, and paper. As a result, prices are increasing rapidly and supplies are very tight.

Metal Drums: This industry experienced surplus capacity and falling prices for a number of years. However, with the strong economy and steel price increases, supply and demand are in balance and prices are increasing. Some business is being lost to plastic drums.

Fibre Drums: Supply is adequate. However, prices are increasing due to linerboard price increase.

Folding Cartons: This is another industry that was in the doldrums for many years and is now booming. Shortages of CCM and SBS board are being reported. The majority of our members report price increases and no one reports a decrease.

Corrugated: Linerboard shipments are running at unprecedented levels. Both domestic demand and export demand are extremely strong. Shortages and lengthening lead times are being reported. The $410 ton linerboard price is sticking and further increases are rumored. However, not all members agree on this. Some see price increases into 1989, some see the price remaining at $410, and some even see the price falling by the end of the year. Several new linerboard plant expansions have been announced which should eventually help the supply situation.

Bags: Bags suffer from the same problem as other packaging items — tight supply and rising prices. Bags are impacted by the plastic resin and kraft paper market. The battle between plastic and paper retail bags continues. The prices of plastic resin and disposal problems may hinder the expansion of plastic bags. Stone Container continues its acquisitive ways. Stone has agreed to acquire another bag company: Trinity Paper and Plastic Corp. of New York City.